

Leased Material Handling Equipment and Racking Systems

Sales & Use tax notice

Pursuant to Tenn. Code Ann. Section 67-6-102(13)(H) and (I), the purchase of material handling equipment and racking systems qualifies for the industrial machinery exemption under certain circumstances. If all other statutory requirements are met, this exemption will also apply if the equipment is leased to a corporation subject to Tennessee franchise/excise tax for use directly and primarily in the storage or handling and movement of tangible personal property, and if the following conditions are also met:

- 1) When used in a qualifying new or expanded warehouse, the leased material handling equipment and racking system must be purchased by the lessor within the statutory three-year period, **and** the lessor must enter into the lease agreement with the lessee (qualifying taxpayer) within that same three-year period.
- 2) When used in a qualifying, previously occupied facility, the lessor and lessee (qualifying taxpayer) must enter into the lease for the material handling equipment and racking system within one year after the qualifying taxpayer's purchase or lease of the building.

The lease payments for qualified material handling equipment and racking systems, purchased and leased within the time limits, will be exempt for the entire life of the lease, even if the period of the lease agreement extends beyond the one or three year periods. The exemption, however, does not apply to the renewal of a lease made after the one or three year periods.

If the lessor purchased the material handling equipment and racking system during the applicable one or three-year period, the amount paid by the lessor counts toward the \$10,000,000 investment that must be made to qualify for this exemption.

Any replacement equipment that is purchased by the lessor outside the one or three year limitation and/or added to the lease agreement outside the one or three year limitation does not qualify for this exemption and may not be counted toward the \$10,000,000 required investment.

To qualify for this exemption, a taxpayer must submit an application to the Department of Revenue.

Have questions or comments? Please let us know. [Contact us.](#)

Publication Date: July 2001